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PROFIT-SHARING AT IVORYDALE.

THE purpose of this paper is to present the salient features and the results of one of the most successful and impressive examples of Profit Sharing in the United States—that of the Procter and Gamble Company, engaged in the manufacture of soap, candles and glycerine at Ivorydale, Ohio.¹

Before describing the experiment in profit-sharing a few words should be said about the home of the company, and its splendid facilities for carrying on the work in which it is engaged.

Ivorydale is beautifully located about seven miles north of Cincinnati. Perhaps no other village in this country, except Pullman, Illinois, can compare with it as an example of what a manufacturing village should be. A genuine attempt has been made to apply the principles of art to its construction and to beautify the daily surroundings of its people. The company owns sixty-seven acres of land upon which are grouped for convenience and beauty about thirty large buildings. The architect of these buildings, Mr. Beman, was also the architect of Pullman. Mr. Beman brought to his work at Ivorydale all the benefit of his experience gained in constructing the model manufacturing village of Illinois. The result of his labor ought to satisfy the æsthetic taste even of the fastidious. Ruskin himself could

¹The facts presented have been gathered from personal study and from communication with members of the firm and its employés. The writer is especially indebted to Mr. D. B. Gamble, Secretary of the company, and Mr. J. W. Donnelly, Manager of the works, for information and for considerate attention while visiting Ivorydale. Free use has also been made of matter published by the Company for the benefit of its employés.

Other articles on the subject here considered are: "Two Successful Examples of Profit-Sharing," by PROFESSOR J. W. BLACKMAR in the *Forum* for March, 1895, and "An Experiment in Profit-Sharing," by WILLIAM COOPER PROCTER, of the Procter & Gamble Co. in the *Independent* for May 2, 1895. Of the latter article especially the present writer has made the freest use.

hardly be displeased with it. The conveniences of the company, its general equipment and its facilities for transportation of raw material and product, are perhaps unequaled in the same kind of business anywhere else in the world. The most improved machinery, special devices for saving time and labor, a complete system of telephones connecting the various buildings, and the general arrangement of the whole plant give it remarkable advantages in industrial economy. Beside tracks of its own, and locomotives for switching purposes, the company has direct connection with three railway lines. It manufactures its own boxes for shipping, and utilizes much of that which in a smaller establishment would be waste product.

Notwithstanding the completeness of the plant, the conditions for success in profit-sharing are not altogether favorable. The nature of the industry in which the company is engaged, and the character of the labor employed, are not the most desirable for such an experiment. Profit-sharing can be economically successful only where there is opportunity for such improvement in the efficiency of labor as to enhance the profits. "It is least effective," we are told, "in industries where mechanism is the principal agency, where interest on capital fixed in machinery is the chief element of cost price, and where the workmen assembled in large factories, can be easily and effectively superintended."¹ These, however, are the conditions at Ivorydale. The labor employed is of the most ordinary unskilled kind, a kind not quick to see and appreciate the benefits of the system. The opportunities for the enlargement of product by increased efficiency of labor are not so great as in some other industries, and wages form a comparatively small item in cost of production. The fact, therefore, that profit-sharing has succeeded in Ivorydale beyond expectation has all the more weight.

The original plan of allowing the workmen to participate in the profits was begun in April 1887, the motive of the company being both economic and philanthropic. During the year 1886, when the Knights of Labor were beginning to assume such

¹ SEDLEY TAYLOR, *Profit-Sharing between Capital and Labor*, p. 18.

prominence, and employés in manufacturing establishments throughout the country became more and more restless, the company was having a great deal of trouble with its employés. Within the year it had fourteen strikes, from eleven to one hundred and fourteen of its employés quitting work in a body, and for all sorts of trivial causes. The company was continually at the expense of breaking in new people and the question was one of constant anxiety. After considerable hesitation it was decided to put into force a plan of profit-sharing and to secure if possible some relief from these troubles.¹ There was also the thought of establishing friendly and kindly relations with employés, as is shown by the words of Mr. James N. Gamble in introducing the plan. "We want," said he, "to afford to the boys and girls and men an opportunity to make the most possible of themselves; we want these boys to grow up step by step to positions better and more profitable. . . . We want to establish friendly and kindly relations with you, to make your interests as far as may be our interests."

The plan as originally adopted provided for a division of net profits on the basis of proportion of wages paid to business done; each participating employé sharing according to his earnings. "It was decided to allow as a portion of the expense of manufacturing a reasonable salary to each active member of the firm, (\$4000) and to divide the remainder of the net profits between the firm and the employés in the proportion that the labor cost of production bore to the total cost of production. In other words, if the sales were \$100,000, and the net profits, after deducting the salaries of the firm, \$10,000, then the total cost of production would be \$90,000. Assuming that the amount paid for wages was \$20,000, then the \$10,000 of profit would be divided, seven-ninths to the firm and two-ninths to the employés.² Certain limitations in regard to sharing profits were adopted, only those who had been employed more than three months being allowed to participate, and boys and girls receiving below \$4.50 a week (about seventy-five in number) were excluded.

¹ *Independent*, May 2, 1895.

² *Ibid.*

The plan, we are told, was accepted by the employés in a half-hearted way, and without any belief on their part that it would be of material benefit to them. At the end of the first six months, however, a dividend of 13.47 per cent. on wages was declared, the highest bonus received by one person being \$275. A second dividend of 11.8 per cent. was declared in April 1888, and in October a third dividend of 9.35 per cent. The effect of these dividends was not what might have been expected. They were received by the employés almost as a matter of course; the distribution being followed by a slight increase of the interest of the employés in their work, which soon dropped back into indifference. In April 1890, we find a member of the firm, in the semi-annual address to the employés, urging upon them more careful, diligent, and intelligent work, and saying "each speaker has urged the matter, but with so little effect upon some of our workmen that it became apparent that not only was injustice being done to the firm, who were getting no returns from these careless ones, but also that the girls and men who did try to prevent waste and to do better work, and to uphold the interest of the business were being unfairly treated by receiving no greater reward than those careless, indifferent and wasteful ones who were equally entitled to a share, if only they had been employed long enough." To break up this indifference the company decided to make free use of its right to deprive the indifferent of a share in the dividend. Consequently, in October 1889, the employés were divided into four classes as follows: (1) Those who showed unmistakable signs of their appreciation of the fact that it was incumbent upon them to help make the profits. These were paid double the regular dividend. (2) Those receiving the regular dividend; including the bulk of the employés. (3) Those who did not evince much interest in the plan and whose dividend was one-half of the regular amount. (4) Those who were cut out of any dividend whatever. Whether as a result of this classification or not, the dividend of April 1890 rose to 15.57 per cent. on wages. At all events, carelessness on the part of the employés grew less and less until it could

be said by one of the directors that "indifference has entirely disappeared." It should be said that the total amount of profit-sharing dividend, neither at present nor in the original plan, is affected by the number of those sharing. If for any reason an employé is debarred from participating, his share is always divided among the others.

This plan continued in operation until July 1890, when the organization of the company underwent a change. The firm was then incorporated as a stock company, under the prospectus of which it was in effect bound to pay 12 per cent. upon the common stock if that amount were earned. Now 12 per cent. was about the same rate as employés had earned under the old plan. Consequently it was an easy and just arrangement to adopt the plan of paying to the employés as their share of the profits the same rate of dividend upon their wages as was paid upon the common stock of the company; and this method was then adopted, and is the one under which the company is now working. Under this plan a man earning, say \$500 a year, receives a dividend of 12 per cent. on this amount, or \$60.¹ The requirement of three months' service before participation in profits is retained in the new plan, but with this limitation all may share unless the right to do so is forfeited by quitting, or being discharged from, the employ of the company. The right to deny the dividend to any employé for cause is reserved by the company, but the amount of his dividend, as has been said, must be divided among the others and does not come to the stockholders of the company. It is also customary to charge up any waste or loss of material due to carelessness or negligence on the part of an employé against his profit-sharing dividend. This amount goes to the company. The occasion for this, however, is rare.

The results both of the original and the present plan, so far as may be indicated by dividends, are shown by the following table giving the date of distribution, the number of laborers participating, and the percentage of profits on the wages paid:

¹ Letter from D. B. Gamble, quoted also in *Forum*, March 1895.

1887, October, 225, 13.47 per cent.	1892, July, 316, 12. per cent.
1888, April, 317, 11.80 "	1893, January, 326, 12. "
1888, October, 302, 9.33 "	1893, July, 338, 12. "
1889, April, 332, 12.13 "	1894, January, 347, 12. "
1889, October, 309, 12.50 "	1894, July, 364, 12. "
1890, April, 344, 15.57 "	1895, January, 405, 12. "
1891, January, 324, 12. "	1895, July, 411, 12. "
1891, July, 273, 12. "	1896, January, 469, 12. "
1892, January, 332, 12. "	

In order to encourage the interest of the employés in the business of the company the directors offer to assist them in purchasing stock. The plan is as follows: Upon application by the employé in writing, accompanied by first payment of \$10, the company will buy for such applicant one share of either the common or preferred stock of the company, as desired, at the guaranteed market price, subsequent payment to be made in installments of \$5 or multiples thereof. All payments upon any share of stock must be completed within two years. Four per cent. interest is charged upon the unpaid balance, to the payment of which the dividends upon the stock must be applied, and the company holds the stock as security until the purchase is completed. At any time previous to the completion of the purchase the employé may cancel his agreement with the company. Upon such cancellation, however, all money actually paid by him towards the purchase of the stock is returned, but the dividends paid or earned return to the company. The company assists an employé upon only one share at a time, and reserves the right to withhold its offer from any employé. Under this plan 91 shares have been taken by fifty people; one taking 7, one 5, four 4, three 3, ten 2, and the balance in single shares. Under an earlier plan over 1000 shares, which are now nearly paid for, were taken by the clerical force and foremen. The company firmly believes in this form of coöperation. "A most marked improvement," says Mr. D. B. Gamble, "is shown by those who have purchased stock, not only in their ability as employés of the company but in the general character of the men." Although this plan has been in operation since 1892 the

laborers are slow to take advantage of it. To encourage them to invest, the company proposes to guarantee them against loss upon their investments by making their stock a lien upon the property.

Another feature which must also be described is the pension plan, inaugurated in 1894. The plan for the establishment and maintenance of a pension fund for the benefit of the employés, and the provisions for its distribution, are as follows: The fund is created by setting aside the sum of \$500 semi-annually, one-half of which is taken from each profit-sharing dividend and one-half is paid by the company. This money is paid over to a board of trustees consisting of five members. The President of this board is the President of the company, and the remaining four members are chosen from the employés in the factory; two from the office force including foremen, and two from the operatives. Two trustees are elected annually, making the term of office two years. The election occurs at the profit-sharing meeting nearest January 1st, and the candidate in each class receiving the highest vote is elected. The board has the authority to invest the funds and to apply the income of such investment, or both income and principal, to the payment of pensions, and moreover, if at any time the trustees find that the income from investment exceeds the amount necessary to pay pensions, the semi-annual payment from the profit-sharing dividend, and from the company, may cease until such a time as shall be decided upon by the trustees. Only those who have been in the service of the company for a period of not less than seven years, and who have been permanently, partially, or totally disabled by accident, sickness, or old age may receive a pension. The board may reject any applicant or discontinue any pension. No pension may exceed 75 per cent. of the average wages earned by the applicant during the last two years of his service with the company. So far as possible the company provides those who are entitled to apply for a pension with such work as they can readily perform, and at such a rate of wages as the work which they are giving is entitled to receive. A

further sum is paid to them out of the pension fund sufficient with the wages paid them to make the total amount received equal to their former average rate of wages, but in no case may the sum withdrawn from the pension fund amount to more than 75 per cent. as above mentioned. The whole plan is an agreement between the company and its employés, and can be terminated at any time upon six months notice by either party. Thus far only one man has received a pension. The present condition of this fund is exhibited by the report of the trustees on February 3, 1896, which was as follows :

Balance on hand July 1895.....	\$554.65
Received dividends on P. & G. stock.....	60.00
Received January 1896, semi-annual amount from employés.....	250.00
Received January 1896, semi-annual amount from the P. & G. Co..	250.00
	<hr/>
	\$1,114.65
Paid for 2 shares P. & G. preferred, bought in August	
1895.....	\$310.00
Paid pensions to M. Collins.....	204.75
	<hr/>
	514.75
Balance on hand.....	<hr/>
	\$599.90
Total receipts since July 1893.....	\$3,184.00
Paid for 14 shares P. & G. preferred.....	\$2,000.00
Paid pensions to date.....	575.10
	<hr/>
Balance.....	\$599.90
TOTAL ASSETS.	
14 shares P. & G. preferred.....	\$2,009.00
Cash.....	575.90
	<hr/>
	\$2,608.90

No special effort is made by the Procter & Gamble Company to provide houses for its employés. Only twelve or fifteen foremen and officemen whose continual presence at the works is required, live in houses of the company. Rents are cheap, and the company thinks that the people are more independent in houses rented or bought of outside parties, and that the company is better served. Employés are encouraged, however, to invest

their savings in a building association, founded in August 1887, and managed by Ivorydale people. Two and a half years after its establishment it was able to report that eight men had purchased lots, and twenty-two had built or were building homes. The association had \$24,000 in mortgage loans, 95 per cent. of which had come from Ivorydale. At present the association is used as a savings bank in which many of the employés have neat balances to their credit. The association has handled \$320,749.07 paying semi-annual dividends which have averaged slightly over 6 per cent. per annum. No losses have thus far been incurred.

An unsuccessful effort at distributive coöperation (in the way of a coöperative grocery) has been made. For about a year there was considerable interest, but it gradually oozed out and the concern was put upon the regular stock company basis, which put it under disadvantage as compared with competitors, since, owing to its location, some distance from the main village, it had little or no local trade and had to look elsewhere for its business. It finally succeeded in building up a fairly profitable trade, but as it has failed of attaining the original object, it is now being wound up and will pay off its stockholders in full. The facts that only about one-half of the employés live near Ivorydale, and that these did not take the interest necessary to make the experiment a success, are responsible for its failure.

The provisions for the physical and social welfare of employés at Ivorydale are also worthy of mention. The machinery is so well guarded that injuries are infrequent. In case of accident, however, employés are given full pay. The company endeavors to promote the health of the people by furnishing light and airy rooms, well heated in Winter, and cooled by fans when necessary in Summer, and by providing a physician, whom they are at liberty to call upon for service at any time each day, and who is subject to call at any time by telephone from the office or elsewhere. A dressing room and lunch room is provided for women, which is kept neat and clean by each girl taking her turn in keeping it in order. It is well lighted and provided with tables and chairs. Pictures are on the walls, and a motto which reads,

"Labor has Sure Reward" hangs in a conspicuous place. The company was somewhat surprised to find that its efforts to provide this lunch room were not appreciated by the girls, who preferred to forego its privileges rather than open up their lunches in the presence of each other.

Among unsuccessful efforts to improve the social life of the employés has been a library and reading room, with smoking room and card room attached. The reading room was stocked with good books, technical, scientific and sociological, novels, history, biography, magazines, trade and daily papers; chess, checkers, dominoes and backgammon. The room was nicely kept, warmed, lighted, hung with pictures, and attended by a librarian, but it was not well patronized. The reason of this no doubt lies in the fact that the employés find more attractive associations outside of the group in which they work. When the employés have developed a higher social and intellectual life the reading room will probably be more generally patronized. There are influences at work which are gradually establishing more intimate social relations. Saturday afternoon, for instance, which is given as a half holiday without loss of pay, is spent by many of the employés in social intercourse, and in the enjoyment of sports and games. These half holidays amount in the course of a year to a month's time.

Another opportunity for developing the social life is the semi-annual distribution day — dividend day as it is called. It is a holiday given to games, sports, and a general meeting at which the employés are addressed by some representative of the company and by other speakers. The writer had the pleasure of being present at the last dividend meeting, February 3, 1896. Free transportation from Cincinnati brought a large number of persons, two thousand perhaps, to witness the exercises. After a few introductory remarks by the chairman, addresses were delivered by Dr. Washington Gladden and Hon. Benjamin Butterworth. The former spoke on "The Relation of Capital and Labor," and the latter on "Higher Citizenship." These addresses were followed by the report of the trustees, the distribution of

the dividend, and the election of the pension fund trustees. The employés evidently took great pride in the meeting. The large room in which the exercises were held was tastefully decorated, and everything appeared to have been done by the employés to make the occasion enjoyable to themselves and their friends. The writer was told that they take special pride in bringing their families and friends on dividend days to show them about the place, pointing out their particular departments which, by their free-will efforts, have been specially brightened up for the occasion. The meeting was followed by a dance.

What now are the results of the nine year's experience in profit-sharing at Ivorydale? In the first place, the company has attained its object of securing relief from labor troubles, there having been no strikes nor serious labor trouble of any kind since the plan has been in force. "We believe," says a member of the firm, "that it would be impossible to foment any such trouble among them now." As an illustration of how they feel we may mention that on several occasions some troublesome fellow has tried to produce dissatisfaction. The men themselves have gone to the foremen with details of the attempt and the suggestion that the disturber be discharged.¹ The old feelings of discontent and distrust have been replaced by that of mutual interest. The expense of breaking in new men has also been almost done away with. Instead of replacing one-half of the employés each year by new men there is now a change of perhaps not more, on an average, than a dozen each year. It is the policy of the company in case of vacancies, to move up if possible some one in its employ and to fill the lower position from outside, thus leaving always before each employé the idea of a chance of promotion if deserved. Many of its best men started with the company as boys, some few having been with it forty years, and quite a number from ten to twenty years. About 50 per cent. have participated in the whole seventeen dividends, and about 90 per cent. have received the last twelve. The employés are always on the lookout for positions for their friends, who as

¹ *Independent*, May 2, 1895.

a rule prove better than the average ordinary person who would be casually picked up to fill a vacancy. Thus both the permanency and the morale of the force have been improved.

Another beneficial result of the plan has been the saving of labor. Although it is difficult to determine the saving due directly to the profit sharing plan, there can be no doubt that it is considerable. In the year 1894 for instance, the labor cost of manufacture, including a 12 per cent. profit-sharing dividend upon the wages, was 63 per cent. of what it was during 1886, and this in spite of the fact that the average rate of wages in 1894 was a trifle over 12 per cent. higher than in 1886. Now figuring conservatively, and throwing all questionable items against profit-sharing, and estimating that the improved methods of manufacture are responsible for 28 per cent. of the 37 per cent. shown, there remains a saving equal to 9 per cent. plus the 12 per cent. increased wages, or 12 per cent. cheaper labor cost of manufacture to be attributed to profit-sharing.¹

Some of the improved methods of manufacture are also to be accredited to the interest developed by the profit-sharing system. For instance, the writer was shown a soap-cutting machine which had been so improved by the workmen as to save the company a considerable sum. The motive in this and other improvements by the workmen was the possibility of an increased dividend. The employés have developed also a greater interest in the character of the goods manufactured, taking special pride and pains in things in which they assume a large profit is made. They will call the attention of the foreman to little questions as to quality of the different brands of soap manufactured, showing plainly a desire to do their share in seeing that nothing goes out from the factories which would tend to injure the demand for the products of their labor.²

There has also been a saving in material, though just how much it is difficult to determine. One of the principal sources of waste in the factory is due to the waste of scraps and small

¹ *Independent*, May 2, 1895.

² *Ibid.*

pieces of soap, by allowing them to fall upon the floor and become trampled under foot. This dirty soap used to accumulate so rapidly that it was necessary to work over the accumulation every two or three weeks. Now it takes three or four months to accumulate a sufficient quantity to be re-handled. The effect of saving by the employés can also be seen in the general air of tidiness and cleanliness about the factories. The testimony of the members of the firm is, that the plan has been a success, that it has exceeded if anything their expectations. "Profit-sharing," says one member, "has proved to be good for both employer and employé."

What would be done in the event that no profits were earned, or a loss incurred? This is a question which the company has never been forced to meet. The position of the company however has been expressed by the secretary as follows: "The employés should not stand any portion of a loss. The wages that are paid them are paid for the ordinary efforts that laborers usually exert. The profit-sharing dividend is paid them for the extraordinary labor and care which they give in return for the dividend. Under these circumstances, if the business in which the profit-sharing system is in force should show a loss, we can see no reason why the employés should stand a portion of it, because they in reality do sustain a loss. The capital invested would certainly be no worse off than in a business where profit-sharing was not in force; but on the contrary, would have received from its employés better service than if such system was not in force; and the loss to stockholders has thereby been made less than it would otherwise have been. Under those conditions we certainly think that it would be wrong and a hardship to ask the employés to bear any portion of such loss; from the fact of their having given extra labor and care, for which they receive no compensation."

We have considered the advantages chiefly from the point of view of the employer. The benefits to the employé are obvious. He receives as high wages^{*} as are paid elsewhere plus his part of

^{*} Wages, owing to the small degree of skill required of employés, are low; 85 per

the profits. He shares no losses. He has the advantage connected with the pension fund, of free medical assistance and of the other incidental features of the plan which have been mentioned. The economic benefits are not greater than the moral and intellectual. He is schooled in thrift and economy. As was said by a member of the firm, in an address to the employés, "It is an advantage to men to be schooled even though a little unwillingly in habits of attention, carefulness, economy, diligence and social helpfulness. These form character, which becomes to a man capital. By this, he becomes a good workman and may always command a preference at least, and such men succeed where others fail." The benefits of this schooling has been clearly shown from year to year. The effect of the early dividends, for instance, was noticeable only for a short time after the distribution. While they were fresh in everyone's memory work was better and more skillfully done. Now the interest continues throughout the year. To encourage this interest various methods are employed. The following will serve as an illustration: In passing from room to room the writer's attention was attracted by printed placards containing directions and admonitions, of which the following are samples. "See that your time is fully occupied." "If you can't waste anything else you can waste time." "Do not become mere machines; give your work some thought and try to suggest some better means of doing it." "Try to be the best workmen in your department. It will pay." "A little waste every day would make a rich man poor." "The man who is careless and wasteful robs not only himself but also his fellow laborer." "The amount of the dividend depends on what you save." "Interest in your work makes your day's labor short and your dividend large." These placards serve as constant reminders to the laborer that he is not a mere productive machine, but a co-partner, though in a restricted

cent. of those employed earn \$1.50 a day or less. Wages, however, are paid by the week, except to girls in the wrapping department who are paid in proportion to the work they do. The average wages per week for men is \$10.00; for women \$4.75; for boys, \$3.50 to \$7.00. — *Forum*, March 1895.

sense, with his employer. On the whole it is beyond question that in this instance at least, profit-sharing has benefited the laborers both economically and morally.

The success of a single example in profit-sharing does not prove, of course, that it should be adopted everywhere. Although Marshall and other economists have expressed the conviction that profit-sharing tends to elevate the relation of employer and employé, and have given it a substantial basis in economic theory, general experience has not been such that one may confidently assert that it is destined to play a large part in future production. It may be said, however, that the experiment we have just described supports all the main arguments which advocates of profit-sharing have advanced in its favor. We have seen that under the plan production has been increased, the quality of the product improved, care and economy promoted, and industrial peace established. In so far as a conclusion can be drawn from this experiment alone, therefore, it would appear to be that of M. Chaix, the father of profit-sharing: "Certainly participation is no universal panacea, nor the last word of social well-being, but I do not hesitate to affirm that it constitutes an incontestible advance upon the existing system of the organization of labor."

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